



Veterinary Laboratories Agency

ANNUAL REPORT AND ACCOUNTS 2005/2006

An Executive Agency of the
**Department for Environment, Food
& Rural Affairs (Defra)**

HC 1161

Veterinary Laboratories Agency

An Executive Agency of the
Department for Environment, Food and Rural Affairs

ANNUAL REPORT AND ACCOUNTS 2005/2006

Presented in pursuance of the Government Resources and Accounts Act 2000, Section 7(2)

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LONDON: THE STATIONERY OFFICE

MISSION STATEMENT

**"We safeguard public and animal health through world class
veterinary research and surveillance."**



INVESTOR IN PEOPLE

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CHIEF EXECUTIVE'S REVIEW

The 1st October 2005 marked the 10th anniversary of the creation of the VLA. This brought together the established agency of the Central Veterinary Laboratory (based at Weybridge and Lasswade) with the Veterinary Investigation Service, which had been providing diagnostic and investigation services for veterinary practices, and gathering disease surveillance information for Government, for over 70 years. In these ten years of the VLA we have restructured and invested to create an efficient organisation with a strong customer focus. We have a fully integrated network of laboratories across Great Britain that can meet the Government's requirement for veterinary research and surveillance, as well as quickly turning its hand to counter a wide range of disease emergencies. It is one of the largest and best known government veterinary laboratories in the world.

The key role that VLA plays in operating flexible but secure emergency response procedures was highlighted in July 2005 when our Winchester laboratory detected Newcastle disease in pheasants on a farm in Surrey. Confirmatory tests were performed by the avian virology group at Weybridge and this swift action and the close working relationship with partner organisations enabled Defra to prevent any further spread of the disease.

That same team in avian virology has played a major role this year in the global challenge posed by avian influenza. VLA is an OIE¹ and FAO² international reference laboratory for avian influenza, as well as for many other diseases. We are also the designated Community Reference Laboratory (CRL), which obliges us to provide a co-ordinating function and a confirmatory diagnostic function for national laboratories in all the Member States of the European Union. As avian influenza has spread across Asia and beyond, extending into Europe and Africa, VLA has been in the forefront of international efforts to monitor the disease patterns and provide advice on control. As partners in the international networks established by OIE and FAO ('OFFLU³') and WHO⁴, we have provided confirmatory testing, viral RNA sequence analysis, technical support, training and supply of reagents to laboratories across the world. This complements our work closer to home on Defra's wild bird survey for avian influenza, which was launched in October 2005. Wild bird deaths that meet defined criteria are submitted for initial diagnostic necropsy at a VLA regional laboratory, and samples are sent to Weybridge for testing for avian influenza, or indeed any other significant infections. Just a few days into our next financial year, in April 2006, we identified the first British H5N1 virus in a wild bird in Scotland.

Our reference laboratory and surveillance work is underpinned by a strong avian influenza research team investigating strain differences, improved methods of detection and a greater understanding of the infection and how it spreads. VLA recognises the importance of follow-through from research findings into practical application. An example of this is the 'real time reverse transcriptase polymerase chain reaction' (RRT-PCR). This important and rapid diagnostic method for avian influenza was developed within research programmes at VLA and elsewhere. It was then adapted to make it suitable for large throughput surveillance applications, including the establishment of robust methodology and consistent results. Finally

¹ OIE – World Organisation for Animal Health

² FAO – Food & Agricultural Organisation

³ OFFLU – OIE/FAO network of expertise on avian influenza

⁴ WHO – World Health Organisation

it was subjected to a full validation assessment before we could apply it with confidence to our wild bird survey.

Space does not permit me to go into great detail on all our science activities, but I do wish to highlight the breadth and the depth of VLA's seven major science programmes. Further information is provided on our website (www.vla.gov.uk). Transmissible spongiform encephalopathies are still at the forefront of our research, surveillance and reference laboratory work. Even as the BSE incidence in the UK continues to decline, we are facing up to new scientific challenges with the emergence of atypical strains of scrapie. Bovine tuberculosis remains a difficult disease control issue, and VLA's programmes of research and surveillance provide major inputs to the development and implementation of Defra policy. Public health is a major concern on many fronts, not least in the area of food safety, and we have recognised this by developing a veterinary public health strategy for the VLA. Above all I do applaud the commitment and professionalism of all our staff, both scientific and administrative, in helping me and the management team to continue to deliver, and to achieve our objectives for the year.

The Government's ongoing programme of capital investment in VLA's central Weybridge site has resulted in the completion and commissioning of two major buildings this year. The Stewart Stockman Building was opened by the Chief Veterinary Officer, Debby Reynolds, in May 2005. The building was named after Sir Stewart Stockman who was appointed Chief Veterinary Officer in 1905 and was also the first director of the Weybridge laboratory. In her opening speech the CVO said “ *The Stewart Stockman building demonstrates the Government's commitment to investing in science to provide the evidence needed for the development and implementation of policy.*”

These new laboratory facilities provide a unique capability for high throughput diagnostic testing with the option of doing so, if required, at the highest level of biosecurity. To complement the complex engineering of the building itself, the testing laboratories have been equipped with a high level of automated and robotic sample processing equipment. The other wing of the building provides a distinct but equally important facility for VLA's major programme of work on bovine tuberculosis. Because of the zoonotic nature of this disease it is necessary to work with the organism at biosafety level 3, and the laboratories are fully equipped to handle not only our ongoing world-class research projects on tuberculosis, but also the continuing demands for diagnostic work as Defra addresses the control of this very challenging disease. The Stewart Stockman Building provides an excellent working environment for staff and by bringing together previously dispersed groups it has facilitated internal communications.

As a member of the Defra family, VLA is fully committed to work towards sustainability in all its activities. This is particularly challenging with high-tech laboratories such as the Stewart Stockman Building as they have an implicit environmental burden. By careful design and use, wherever possible, of sustainable materials and approaches, we gained a BREEAM⁵ ‘Very Good’ rating, which is a significant achievement for a building of this nature.

With our second major building, the new headquarters for VLA's Animal Services Unit, we did not have the constraints of laboratory provision or biosecurity. We therefore could focus on sustainability, including automated natural ventilation, photovoltaic and solar cells that provide

⁵ Building Research Establishment Environmental Assessment Method

10 per cent of the buildings energy requirements, structurally insulated panels, use of timber and wood base materials from renewable and well managed certified resources, water saving devices and mechanical systems designed to generate low carbon dioxide emissions and requiring minimal energy use. We were delighted, in November 2005, to welcome Ben Bradshaw, the Minister for Local Environment, Marine and Animal Welfare, who formally opened it as the 'Mills Building', named after Bernard Mills who has provided so much support to the Weybridge site redevelopment over the past decade. We are all very proud that the Mills Building achieved a BREEAM Excellent rating, and I am grateful to all those involved in the design and construction who contributed to this.

As part of our wider commitment to sustainability, we have developed our own action plan, which also commits us to operate the entire business in a sustainable way, as well as working to a sustainable building programme. We successfully achieved the environmental standard ISO-14001 certification for the Weybridge site last year and this year we have been extending compliance to the network of regional laboratories.

Quality assured services lie at the heart of VLA's delivery operations. We already had a range of formal certifications in different areas of our business, such as ISO-17025, ISO-9001, GLP, GMP, ISO Guide 43/ILAC G13, Investors in People, all of which have been maintained through the year. In addition we were set a demanding Agency target to achieve ISO 9001:2000 certification for our entire business operation and I am pleased to say that this was successfully achieved in September 2005. This is a tremendous achievement considering the great breadth and depth of our work and I know that it is as a result of the commitment and dedication of everyone working at VLA.

Collaborating with other scientific organisations has always been an important element of our work. Our wide range of collaborators across the world enable us to offer our customers a broader service and call upon a much greater pool of knowledge, expertise and facilities. Our relationship with the Health Protection Agency strengthens our newly developed VLA veterinary public health strategy and our ongoing collaboration with the Institute of Animal Health (IAH) broadens our animal health expertise. This particular relationship will be further explored during the coming year in an options appraisal study conducted by Defra and the BBSRC to investigate alternative models for VLA and IAH. Our closer partnership with IAH is particularly evident in the programme to relocate VLA's virology department to the Pirbright site by 2011. VLA is playing an active role in the planning and design work and we were delighted when the programme achieved a 'green' rating at the second gateway review in February 2006.

In July 2005 VLA, together with five other Public Sector Research Establishments⁶, signed a co-operation agreement that will ensure the laboratories work closer together to increase effectiveness in the best interest of the public. The agreement promotes knowledge sharing on topics of strategic and operational importance such as emergency response and disease control.

⁶ The Central Science Laboratory, The Centre for Environment, Fisheries and Aquaculture Science, The Defence Science and Technology Laboratory, the Health and Safety Laboratory and the Health Protection Agency.

This partnership is known as the InterLab Forum. CoVetLabs (known colloquially as ‘Club 5’) is a similar communication and collaboration network but which extends across Europe including five national reference veterinary laboratories⁷. The aim is to advance high quality veterinary science and enlarge scientific capabilities by disseminating knowledge, sharing experiences and transferring skills and technology.

Winning a substantial award from the DTI’s Public Sector Research Exploitation Fund in January 2006 has helped boost our strategy to increase our commercial work and target new markets. £2.5m was awarded to join the DTI Rainbow Seed Fund, which makes awards to commercialise publicly funded innovations. Just over £500k was awarded to fund a three-year business development manager post and £800k awarded to an InterAct project for proof of concept funding for science. InterAct is a unique partnership offering new technologies and collaborations to the commercial sector. As well as VLA, members include the Defence Science and Technology Laboratory, the Central Science Laboratory and the Health Protection Agency.

We have again been successful in meeting our key financial and service delivery targets and have continued to implement our Safety Action Plan to ensure an excellent health and safety ethos across the Agency. This follows a trend set over our last 10 years as an agency.

On entering the next 10 years of our history I am confident that our success will continue. We will build on the excellent achievements we have made in the past 10 years and, indeed the 100 or so years beforehand. Looking ahead I am particularly excited at the closer relationship that we are building with the IAH, and also by our growing involvement in animal and public health on a global front.

I am confident that VLA will continue to provide a first rate service to our Government and private sector customers.

Professor Steven Edwards

Chief Executive and Agency Accounting Officer

25th May 2006

⁷ Agence française de sécurité sanitaire des aliments (AFSSA), Centraal Instituut voor Dierziekt Controle (CIDC – Lelystad) & Instituut voor Dierhouderij en Diergezondheid BV (ID – Lelystad) The Netherlands, Statens Veterinärmedicinska Anstalt (SVA) Sweden, Danish Institute of Food and Veterinary Research.

DIRECTORS' REPORT
For the year ended 31 March 2006

TREASURY DIRECTION

The accounts have been prepared in accordance with a direction issued by the Treasury in accordance with section 7(2) of the Government Resources and Accounts Act 2000.

BACKGROUND INFORMATION

The Veterinary Laboratories Agency (VLA) became an Executive Agency of the Ministry of Agriculture, Fisheries and Food (MAFF) with effect from 2 April 1990, under the then title of Central Veterinary Laboratory (CVL). Prior to this date the Laboratory formed part of the State Veterinary Service within the Ministry.

On 1 October 1995 CVL combined with the Veterinary Investigation Service in England and Wales, (until then a part of the Ministry), to form an enlarged Agency under the new name of The Veterinary Laboratories Agency.

In 2001 the Government created The Department for Environment, Food and Rural Affairs (Defra), which incorporated all functions of the former MAFF together with other bodies.

The main premises are near Weybridge in Surrey. There are also fifteen regional laboratories located throughout England, Wales and Scotland.

PRINCIPAL ACTIVITIES

The principal activities of the Veterinary Laboratories Agency are to:

- (a) Provide the Department with an effective source of specialist scientific and technical expertise in the field of animal and public health;
- (b) Deliver specialised diagnostic, research and advisory services and products as required by the Department in pursuit of its statutory and policy objectives in the animal and public health sector; and
- (c) Deliver such services and products to other public and private sector organisations on a commercial basis, to help maintain and develop its efficiency and expertise.

MANAGEMENT STRUCTURE

VLA Management Board

The Strategy Management Group (SMG) performs this function and comprises the following members:

Prof. S. Edwards	Chief Executive
Mr. R. Hancock	Veterinary Director
Mr. C. Morrey	Business Director
Prof. J. Morris	Director of Science Strategy
Prof. C. Thorns	Director of Specialist Scientific Services

VLA Advisory Board

Following the Defra review of its Agencies an Advisory Board was established on 1st September 2003 to provide advice on strategic direction and plans to the SMG. The membership of this Board, during the year, was as follows:

Prof. S. Edwards	Chief Executive
Mr. R. Hancock	Veterinary Director
Mr. C. Morrey	Business Director
Prof. J. Morris	Director of Science Strategy
Prof. C. Thorns	Director of Specialist Scientific Services
Ms. T. Daly	Defra Delivery Strategy Team (until 30/9/05)
Mr. M. Murray	Defra Delivery Strategy Team (from 1/10/05)
Prof. D. Smith	External Member
Prof. U. Kihm	External Member
Mrs. J. Goodger	Communications Manager

As a consequence of the work undertaken by Defra in the review referred to above, it was decided to replace the Advisory Board from 1st March 2006 with an Ownership Board.

VLA Ownership Board

The Ownership Board was established in March 2006 as a top-level governance body, set up at the direction of the Secretary of State to oversee the activities of the VLA. The role of the Board is to advise the Minister on all policy and operational matters relating to the Agency and to monitor on behalf of the Minister, the Defra Management Board and the Devolved Administrations, the performance, efficiency and financial and managerial regularity of the Agency.

Membership of the Board is as follows;

Prof. D. Smith	Chairman, External Member
Prof. U. Kihm	External Member
Prof. J. Preston	External Member
Prof. C. J. Gaskell	External Member
Prof. S. Edwards	Chief Executive, VLA
Mr. A. Burchell	Chief Operating Officer, Defra
Dr. D. Reynolds	Chief Veterinary Officer, Defra
Mr. I. Grattidge	Finance Director, Defra
Mr. J. Lowi	Defra Delivery Strategy Team
Mr. A. Robinson	Defra Laboratory Strategy Team

The Laboratories Strategy Committee

Arising from the recommendations of the Agency Review, Defra established a sub-committee of its Management Board, the Laboratories Strategy Committee on the 1st January 2003. This Committee provided strategic direction and oversaw the development and implementation of strategy for the three science Agencies including VLA. The composition of this Committee was as follows:

Mr. L. Barker	Chairman External Member (CEO of Hedra PLC)
Mr. M. Addison	Director General – OSD, Defra
Prof. H. Dalton	Chief Scientific Adviser, Defra
Prof. S. Edwards	Chief Executive, VLA
Dr. D. Reynolds	Chief Veterinary Officer, Defra
Prof. M. Roberts	Chief Executive, CSL
Mr. M. Farrar	Chief Executive, CEFAS
Prof. J. Preston	External Member
Mr. J. Smellie	Defra Delivery Strategy Team
Mr. I. Grattidge	Finance Director, Defra

As a consequence of the work being undertaken in Defra's strategic review of its laboratories, it was decided in July 2005 that this activity would be taken forward by a new body, The Laboratory Strategy Group (LSG) and the above body was therefore disbanded. As the range of options for VLA differed from the other two agencies it was agreed in February 2006 that the VLA Ownership Board should oversee this aspect. Therefore the LSG does not have a governance role in respect of VLA.

CUSTOMER INCOME

In the year Defra placed work with the Agency, which accounted for 89% of its total revenue (2004/2005, 90%). The Agency continues to seek income from other sources, whilst retaining a special relationship with the Department.

R&D ACTIVITIES

The research and development work of the Agency underpins the activities of Defra's Animal and Health & Welfare Directorate General in the control of animal diseases of statutory or public health significance: such commissioned work for Defra amounted to 20% of the total income from Defra in the year (2004/2005, 22%).

AUDIT SERVICES

The provision of Internal Audit was supplied by Bentley Jennison. The External Auditor is the Comptroller and Auditor General. No remuneration was paid to the External Auditor in respect of non-audit work.

The Accounting Officer has taken all steps considered necessary to ensure that he is aware of any relevant audit information and to establish that the External Auditors are also aware of that information. As far as the Accounting Officer is aware there is no relevant audit information of which the External Auditors are unaware.

PAYMENT POLICY

VLA policy is to settle all creditors' accounts within creditors' own payment terms and conditions. During the financial year the VLA paid 97% of bills by the due date (2004/2005, 97%).

DISABLED PERSONS POLICY

The Laboratory has its own Disabled Persons Officer who has responsibilities for the Civil Service Code of Practice on the employment of people with disabilities. All posts at the Laboratory are open to people with disabilities and recruitment advertisements carry an equal opportunity statement and the official disability symbol. The VLA aims to retain staff who become disabled whilst in employment, either in their existing post or in alternative suitable work.

COMMUNICATION

Effective communication is considered essential for the development of VLA. The Agency is committed to continuous improvement in communication to all members of staff, which will include consulting wherever possible with staff in the decision-making process. Newsletters, team briefings which will include an assessment of the economic and financial factors facing the Agency, an Agency intranet and workshops complement the long established channels of communication.

Regular audits are used to monitor their effectiveness and drive improvements. The National and Departmental agreements on consultation procedures have been maintained.

PENSIONS

All staff are eligible for membership of the Principal Civil Service Pension Scheme (PCSPS). An outline of the scheme is included in the Remuneration Report and details of how pension liabilities are treated can be found in accounting policy (i).

OPERATING AND FINANCIAL REVIEW

AIMS AND OBJECTIVES

Aims

The aim of the VLA is to provide the Department with an effective and efficient service of specialist veterinary, scientific and technical support, consultancy and surveillance in the fields of animal health and welfare (including public health), food safety and the environment.

Objectives

The Agency's principal objectives are to:

- i. Carry out research, surveillance and disease investigation, and provide services to the highest scientific and ethical standard implementing and maintaining appropriate rigorous quality control procedures;
- ii. Provide its services economically, effectively and efficiently;
- iii. Maintain appropriate scientific expertise and facilities at the level required to provide consultancy, surveillance and scientific services to Departmental customers;
- iv. Improve the quality and effectiveness of services to the Department by carrying out research that maintains and develops the Agency's technical capability and develops new technologies;
- v. Apply the principles of Service First in particular, to maintain or to improve the quality of services to customers; and
- vi. Achieve annual financial, efficiency and quality service targets set by the Minister.

Financial Performance

The Agency is required to recover its full economic costs within the permitted 2% tolerance range through charges for services it provides to Defra and other public and private sector customers. In assessing performance against this target VLA excludes early retirement costs and other exceptional items but includes notional insurance premiums (see note 2 to the accounts).

This objective was achieved in 2005/2006. During the year VLA generated sales amounting to £107,350,000 (2004/2005, £94,582,000) against costs of £106,301,000 (2004/2005, £94,830,000) to give a surplus of £1,049,000 (2004/2005, deficit £248,000).

Included within VLA's costs is a capital charge of £22,928,000 (2004/2005, £17,794,000) comprising notional interest, depreciation, impairment on buildings to be demolished and downward asset revaluations.

Service Performance and Quality Targets

The Agency's performance against set targets was as follows:

	2005/06	2004/05	2003/04
Achieve targeted savings from Procurement activities	N/A	Met	Met
Keep the increase in the test portfolio below inflation	N/A	Met	N/A
Maintain the ratio of overheads to turnover at prior year level (2002/03 achieve 3% improvement in ratio)	N/A	Met	Not met
Identify rationalisation options to achieve break-even during 2005/06	N/A	Met	N/A
Achieve 85% of ROAME R&D milestones	Met	Met	Met
Meet the 85% baseline for deliverables on Surveillance contracts. (2004/05 set the baseline)	Met	Met	N/A
Deliver 95% of export tests to published turnaround times	N/A	N/A	Met
Achieve a score of at least 75% in the customer satisfaction survey. For 2004/5 and 2003/4 to Improve customer satisfaction score.	Met	Met	Not met
Prepare an annual report on collaborative work	N/A	N/A	Met
Maintain current third party quality accreditations	Met	Met	Met
Achieve ISO 9001:2000 accreditation across the Agency	Met	N/A	N/A
Achieve compliance with Defra's policy for QA in research (2003/04 implement the policy)	N/A	Met	Met
Achieve ISO 14001 compliance	N/A	Met	N/A
Achieve UKAS 17025 for mammalian influenza	N/A	Met	N/A
Implement the VLA Safety Plan to timescale	Met	Met	N/A
Deliver 2.5% efficiency savings	Met	N/A	N/A

Our targets are set within the context of the four key areas of VLA and its operations namely; service delivery, quality, safety and efficiency. We provide the base data to enable verification of performance to be made by Defra's Internal Audit Division who provide an independent assessment to Defra. The statement above has their approval.

Service delivery is a vital aspect of meeting customers' requirements and ensuring that we continue to obtain further work from them. We have three targets within this heading;

- **Achieve 85% of ROAME R&D milestones.**

This refers to the work we undertake on research projects for Defra and is an agreed performance measure with them. It relates to meeting the agreed milestones on the projects we undertake for them during the year, i.e. interim and final reports, and is set at project initiation stage. The customer must agree any variation to original timescale. We monitor performance in year within the VLA's Business Division and provide regular reports on progress to both Defra and internally through our milestone tracking system.

- **Meet the 85% baseline for deliverables on Surveillance contracts.**

This is similar to the above except that it relates to our surveillance work and covers a much broader range of outputs. Our surveillance work is made up of numerous projects undertaken for a number of different customers within Defra AHWG. Deliverables on projects are varied and can be a monthly report or less frequent, depending upon the nature of the individual project. During 2004/05 we established a monitoring system to enable us to track these deliverables and set the baseline to be achieved for 2005/06. We monitor and report progress in a similar manner to the above. As part of the verification process for 05/06 it was noted that, with the need to close off our accounts much earlier, some final report deliverable dates fall after the signing of the accounts. Therefore we will review the basis of the target for reporting on individual deliverables and may have to revise this basis to include those only due for delivery by 31st March (which would then relate to work done in the previous year). This is expected to have minimal impact on reporting compared to present.

- **Achieve a score of at least 75% in the customer satisfaction survey**

Each year we send out a questionnaire to our main government customers, Defra and the FSA who account for over 90% of our work, asking them to score our performance against a number of set questions in relation to projects we have undertaken for them. Projects are selected across our programmes and relate to those completed during the year. The questionnaires and the comments received back allow us to identify trends (good and bad) and lessons to be learned. This process is managed within the Business Division and the results of the consolidated returns are then calculated to give an overall satisfaction score based on a weighting of individual project values. The report is circulated to SMG and the Programme Managers who are required to produce an action plan in response to any issues raised in their area. Traditionally we have undertaken the survey once a year, however, for 2006/07 we will be considering surveying as projects finish in year.

Quality is central to all that we do and having independent third party certification and accreditation for our work gives our customers reassurance in placing work with us. It also ensures that we foster an environment of continual improvement in all that we do. We had two targets in this area;

- **Maintain current third party quality accreditations.**

We already have achieved a range of formal external standards such as Good Laboratory Practice, Good Manufacturing Practice, Investors in People and ISO17025 in different areas of our operations. An important measure of demonstrating our commitment to quality is that these are maintained. They are subject to regular audit and inspection and maintaining them is a challenging target.

- **Achieve ISO9001:2000 accreditation across the Agency.**

We took the strategic decision that as quality is so important in everything we do that we would seek to achieve the external quality standard ISO9001:2000 throughout all our activities - not only in the science but also in the business support areas. This demonstrated a significant commitment in resource and resolve, as it required all areas

to be fully compliant to achieve accreditation. We were audited on this, successfully achieving accreditation in September 2005 - a position that exceeds our customer's expectations. Now that this has been achieved the challenge for future targets is to maintain this together with our other certifications.

Safety is a matter we take very seriously as the nature of our work can involve working with a range of hazardous materials in laboratory conditions and also animal handling in some parts of our operations. Therefore ensuring our employees operate in a safe working environment and are not exposed to preventable harm is a key target. As a measure of achieving this we put in place a Safety Plan for the year that laid out a number of activities in the areas of training, communications, commissioning and design of accommodation, regular safety inspections and reviewing our Health & Safety policy. Responsibility for implementation resides with the VLA Safety Manager who produced a status report at the end of the year which was submitted to the VLA Safety Committee for approval and who at the same time approved next year's plan.

Efficiency savings are required by Defra from all its Agencies and NDPBs as part of its response to the Gershon Efficiency agenda. We are playing our part in this by seeking to achieve an annual 2.5% reduction in our expenditure over the next 3 years compared to the baseline set as 2004/5. The baseline has been agreed with the Defra unit managing this process and it takes into account non operational accounting adjustments such as write downs and some pass through items of expenditure over which we have no control. The data for validating year one of this target is produced from our accounting system and progress is discussed regularly with Defra. This target will apply for the next 2 years.

Risk Policy

Risk management is the key internal control within VLA and the policies are subject to regular review by VLA's Management Board and the Audit and Risk Committee. Full details of the risk environment within VLA are detailed in Section 4 of the Statement on Internal Control.

Land and Buildings

The premises occupied by the VLA comprise a main Laboratory site of 15 hectares near Weybridge, Surrey, with adjacent grassland and farm buildings of 75 hectares; a farm unit of 50 hectares within eight miles of the main Laboratory; and 15 Regional Laboratories throughout England, Scotland and Wales.

Environment Policy and Achievement

Sustainable development is integral to the way VLA works, as demonstrated through our policies, our operations and our commitment to both staff and the wider community. VLA has an ISO14001 accredited Environmental Management System, an "Environmental Policy" and a detailed Environmental Management Programme. VLA has designed its approach to be consistent with the UK Sustainable Development Strategy 'Securing the Future' shared UK principles for sustainable development which are

- Using sound science responsibly
- Promoting good governance
- Ensuring a strong, healthy and just society
- Achieving a sustainable economy
- Living within environmental limits

VLA has clearly defined responsibilities for sustainable development and the monitoring and reporting of our performance will be included in annual reports. We will also integrate sustainable development into all our policy making and procedure setting.

VLA achieved ISO 14001 certification for the Weybridge site in 2005 and is now extending ISO 14001 to all of the Regional Laboratories.

Recruitment

The VLA has systems in place to ensure that recruitment is carried out on the basis of fair and open competition and selection on merit and, in accordance with the Recruitment Code laid down by the Civil Service Commissioners, they are subject to internal check.

The table below gives details of the appointments made to VLA in 2005/2006 where recruitments are closed:

Pay Band	Total Appointed	Male	Female	Disability declared	Ethnic minority
A					
B	1	1			
C	12	6	6		
D	15	11	4		
E	11	3	8		
F	58	16	42		
G	64	24	40		

Total	174	61	100	0*	13*
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* A total figure only has been given to comply with confidentiality rules

Employment of Disabled Persons

VLA follows the Civil Service Code of Practice on the employment of Disabled People which aims to ensure that there is no discrimination on the grounds of disability and that access to employment and career advancement with the Agency is based solely on ability, qualifications and suitability for the work. In addition, the Agency also operates the 'Two Ticks' scheme whereby disabled job applicants are guaranteed an interview if they meet the minimum criteria for that job. The average number of disabled persons employed by VLA during the year was 96 (2004/05 - 91).

Diversity and Equality

The Agency encourages staff involvement in the day to day running of its activities through normal line management contacts. Both the intranet and regular Office Notices are used to disseminate information. VLA encourages personal development and follows an equal opportunities policy for fair and open recruitment of permanent staff regardless of age, disability, gender or ethnicity. Staff have access to welfare facilities, Trade Union membership and representation. In addition, Defra has several staff networks that help develop policy and inform staff of the Agency's diversity and equality policies. All VLA staff have access to these networks.

It is VLA policy that there shall be no discrimination against staff on the grounds of colour, race, ethnicity, gender orientation, marital status, age or disability. Employment and promotion is solely on merit. Precisely the same standards apply in the assessment of women and men regardless of marital status, domestic responsibilities, or ethnicity. Staff who work reduced hours are assessed on exactly the same basis as those working full-time and without regard to part-time status, subsequent availability or availability of posts. An Equal Opportunity Officer has been appointed and is available to all staff.

Employee Involvement

VLA recognises the very large part that its staff has to play in the development of the organisation. Supported by effective leadership, staff actively seek better ways to deliver VLA's outputs and develop, focus and exploit their skills to make maximum impact on the achievement of Defra's priorities. Achievements and initiatives carried forward during the period include:

- VLA ran four sample-based "Have Your Say" staff surveys between April 2005 and March 2006. An action plan addressing priority areas is being implemented. Progress is being measured against the results of the full staff survey which took place in 2004.
- VLA is currently working to maintain and continually improve its Investors in People accreditation. This ensures VLA's continuing commitment to its people, and recognises the benefits of external assessment on strategic direction, management capability and HR policies;
- Management and staff representatives meet regularly in a number of fora including the Whitley Council; and
- All staff have the opportunity of training and development in line with business needs.

REMUNERATION REPORT

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body is to have regard to the following considerations:

- The need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- Regional/ local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- The funds available to departments as set out in the Government's departmental expenditure limits; and
- The Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be made on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

The officials covered by this report hold appointments which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

The salary and pension entitlements of the most senior managers were as follows (audited):

	Salary, including performance pay [2004/2005] (£k)	Real increase in pension and lump sum at age 60 (£k)	Total accrued pension at age 60 at 31/3/06 and related lump sum (£k)	CETV at 31/3/05 (£k)	CETV at 31/3/06 (£k)	Real increase in CETV as funded by employer (£k)
Prof S Edwards	90-95 [85-90]	10-12.5	100-110	424	488	70
Mr R D Hancock	75-80 [75-80]	7.5-10.0	75-80	259	298	33
Mr D C Morrey	65-70 [65-70]	5.0-7.5	25-30	79	112	31
Prof. J Morris	50-55 [70-75]	5-7.5	140-145	596	631	30
Prof C J Thorns	65-70 [65-70]	7.5-10.0	115-120	484	527	44

Salaries include gross salaries, performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. There were no benefits in kind (2004/ 2005 – nil).

All members of the Advisory Board with the exception of Prof U Kihm, Prof. D Smith, Mr. M Murray and Ms. T Daly are VLA staff which bears their direct costs. Expenses were paid to the non-Defra external members for their attendance at meetings.

Appointment of the Agency's Chief Executive is by open competition. The appointment is fixed term for a period of five years. This term elapsed in June 2005 and the appointment was renewed for a three years from 9th March 2005. The appointment may be terminated subject to normal employment law considerations. The Chief Executive is a member of the Senior Civil Service and his remuneration is based upon SCS salary scales; he is entitled to a bonus based upon achievement of the Agency's targets. This is subject to external validation by Defra's Internal Audit Division who undertake a full audit.

The Chief Executive's gross cost of employment in 2005/2006 including superannuation benefit, employer's NI contributions, bonus and a taxable allowance was £125,518 (2004/2005 £109,781). The Chief Executive is a member of the Classic Pension Scheme.

Civil Service Pensions (CSP)

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (Partnership Pension Account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for Premium and Classic Plus. Benefits in Classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is

payable on retirement. For Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

The Partnership Pension Account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouses' pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real Increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Professor Steven Edwards

Chief Executive and Agency Accounting Officer

25th May 2006

STATEMENT OF AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under section 7(2) of the Government Resources and Accounts Act 2000 the Treasury has directed the Veterinary Laboratories Agency to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction on page 42. The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year-end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular will: -

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The Accounting Officer of the Department for Environment, Food and Rural Affairs has designated the Chief Executive of the Veterinary Laboratories Agency as the Accounting Officer for the Agency. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Veterinary Laboratories Agency's assets, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in Government Accounting.

STATEMENT ON INTERNAL CONTROL

1. SCOPE OF RESPONSIBILITY

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I ensure that the Defra Permanent Secretary, the Principal Accounting Officer for the Department, is aware of the main risks managed by the Agency through regular reporting of the ten highest risks. Additionally I ensure that the Agency's business plans which are submitted to, and approved by, Ministers include sections on risk.

I am accountable to the Department's Principal Accounting Officer for enabling her to discharge her overall responsibility in respect of ensuring that the Agency, as part of Defra, has adequate financial systems and procedures in place.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Agency policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Agency for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3. CAPACITY TO HANDLE RISK

Risk Management is recognised as the key internal control. The framework for its effective operation in VLA is the responsibility of the Business Director on behalf of the Accounting Officer. Regular reports are made to VLA's Management Board, the Strategy Management Group (SMG) and to the Audit & Risk Committee where effectiveness of the processes in place are assessed. Further advice on the application of risk management is sought through participation at the Defra Risk Forum. A sub-committee of the SMG, the Risk Management Steering Group is in place to ensure a consistent approach is followed and give guidance on any issues arising from the risk registers.

Guidance to staff on risk is available in the VLA Risk Management Strategy document and this together with further information on risk can be accessed on the local Intranet.

4. THE RISK ENVIRONMENT

Governance

The management structure and accountability of the VLA Board and Executive (SMG) are detailed on pages 6 and 7. A register of the Directors (SMG in this instance) is maintained and reviewed annually. Support to the management structure is provided for Internal Control purposes through the Audit & Risk Committee (A&RC) which is chaired by an external member. The Heads of Internal and External Audit attend the A&RC to present and receive reports on risk and controls within the Agency. In addition Internal Audit gives an opinion on the control environment. The Committee's terms of reference and minutes of meetings are available to staff on our intranet. In addition the SMG has established a number of advisory sub-committees covering the areas of Safety, Quality, IT and Risk all of which are chaired by an SMG member.

Programme and Project Management

Programme and Project Management are a key elements of the activities of the VLA. Our work is delivered through the following programmes; Statutory & Exotic Bacterial Diseases, Transmissible Spongiform Encephalopathy, Food & Environmental Safety, Statutory & Exotic Viral Diseases, Emerging Diseases & Welfare, International Trade and Commercial. The programmes are made up of a portfolio of projects and our income is dependent on these being successfully delivered. The controls we have in place to manage this process includes;

- Each project has a project leader and we have in place published standard operating procedures for project management which include requirements for project initiation documents, planning, risk assessments, delivery, final reports etc and are available on our Intranet.
- We have an established set of training course for new project managers and have reviewed the content and appropriateness of these during 2005/2006.
- Work programme performance is reviewed regularly through the year at meetings held with the programme managers and members of the SMG.
- Targets of performance are in place covering delivery of projects and these are ministerial targets and can be found on pages 11-13.
- We undertake each year a customer satisfaction survey based on a cross section of projects delivered and put in place action plans in response to any issues raised in the feedback.
- All project work is undertaken to the quality standard ISO9001.
- With project management being a key part of our operations, we undertook a project led by an SMG member to improve the effectiveness of our processes which resulted in enhanced training and guidance plus clarification on where assistance could be obtained.

In addition to our work programmes the major site redevelopment construction project at our main site at Weybridge is controlled by a project board including all the Directors and operates within the OGC Gateway Review Framework. Furthermore the co-location project of our Virology Department to the IAH site at Pirbright also operates through the same process.

Risk Management

In the Agency the main processes which we have in place for identifying, evaluating and managing risk are:

- The Agency has in place Corporate and Divisional risk registers owned by members of the SMG
- Risk is an open standing agenda item at Divisional Management and Team meetings
- Each quarter a written report on the top risks in the VLA Risk Register is prepared by the risk owners and forwarded to the Business Director who acts as the risk co-ordinator
- Each quarter the Divisional Directors review their risk register, update accordingly and forward to the Business Director
- A full quarterly review is undertaken at SMG based on the consolidated report from the Business Director where the individual risk ratings are reviewed and any additional actions identified
- Every month at the SMG Performance meeting, risk is a standing agenda item where there is the opportunity to discuss any new and emerging risks
- At each meeting the Audit and Risk Committee receive a report from the Business Director on the operation of the Risk Management Framework within the Agency
- The top risk priorities currently identified are in the areas of customer requirements, new livestock disease/biohazard outbreak and change of Agency status.

Our management of risk is embedded in planning and delivery by ensuring that:

- Directors promote risk management at Team meetings
- Risk Management is included in the Induction Course for new entrants
- The risk management strategy, framework and risk registers are available on the IntraVet site
- Risk is an accepted principle and requirement for major capital investment, strategic plans and projects, which must have a risk register in place
- Objective setting is linked to risk, as risk owners will have personal objectives to manage their risk area.

Strategy and Planning

We have in place a well established business planning process whereby each year we review and publish our Corporate Plan and produce an Annual Business Plan. These plans detail the strategic direction for the Agency, the issues we face, the Agency targets, the corporate risk register and the balanced scorecard. In producing these plans we consult with our external board members, our senior staff and the TUS. These documents are routed through a challenge process managed by Defras' Delivery Strategy Team, agreed by the Ownership Board and finally approved by the Minister. Details of these targets can be found on pages 11-13 .

The plans once approved then form the basis for target and objective setting throughout the organisation.

To improve the awareness of our staff of our plans we publish them on our intranet and also make available a shortened summary document for ease of reference.

Performance Management

Our performance management framework has been established through our strategic and business planning process. The Annual Business Plan provides the detail on the measures of performance for the year. Monitoring of our performance takes place through the following methods;

- We publish a composite corporate balanced scorecard that not only includes our Ministerial Targets but also itemises our internal targets and measures of performance. This is the prime performance management tool utilised. Responsibility for the achievement of the individual scorecard measures are assigned to individual Directors.
- Reviews of performance take place monthly at SMG meetings where a set agenda is followed and progress against each of the measures is discussed. Measures are added/amended throughout the year as part of the review process.
- Information on performance against the various measures is made available to our staff throughout the year on our intranet site, we use a “traffic light” system for ease of recognition of items where performance is off course . The scorecard is cascaded to the operating divisions of the VLA which detail how each division will contribute to the achievement of the corporate measures referred to above. At the monthly divisional management meetings a review takes place and the results are published and made available to all staff.
- The cascaded scorecards form the basis for setting staff objectives for the year thereby forming a direct linkage of objectives and the scorecard measures.
- We encourage strong performance through our pay and reward mechanism which includes an differential element of pay related to performance. We also have rewards schemes in place to recognise good team performance.

5. REVIEW OF EFFECTIVENESS

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Directors within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. The Agency has established the following processes to maintain internal control:

- The local management board (SMG) meets monthly to consider operational performance and quarterly in relation to strategic and medium term issues affecting the direction of the Agency compared to its plan.
- Progress on achievement of the ministerial targets is reported to the VLA Advisory Board, from March 2006 the VLA Ownership Board. The Chief Executive has line responsibility to the Defra Chief Operating Officer (previously Director General, Operations and Service Delivery), regular meetings are held during the year to discuss the Agency’s progress against its objectives.

- A balanced scorecard is the main internal measurement of performance and is operated in conjunction with the risk register which is reviewed by SMG monthly. This scorecard forms the basis for work objective setting and is cascaded throughout the Agency.
- The Audit & Risk Committee meets at least three times a year to consider the effectiveness of VLA's response to audit reports and its risk management framework
- Risk Management is a personal objective for the Business Director who is the nominated Risk Co-ordinator
- All risks identified in the Corporate and Divisional risk register have a risk owner responsible for control and mitigation
- To ensure that the risk of fraud is properly managed a Fraud Management Policy was produced during the year together with a specific risk register. A small team has been established, chaired by the Business Director, to manage and review the process.
- Internal audit services were provided up to December 2005 by Pritchard Wood and from January 2006 by Bentley Jennison, independent companies which operate to Government internal audit standards. Each year an Audit Strategy for the coming year is approved by the (AR&C) together with the Annual Plan. They submit regular reports, which include an independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement.
- During the year ISO9001 certification was achieved across the whole range of the Agency's activities thus providing further assurance on the business processes in operation. The Agency also retained its IIP status during the year.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Management Board and the Audit and Risk Committee.

Professor Steven Edwards
Chief Executive and Agency Accounting Officer

25th May 2006

**THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR
GENERAL TO THE HOUSE OF COMMONS**

I certify that I have audited the financial statements of the Veterinary Laboratories Agency for the year ended 31st March 2006 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Chief Executive and auditor

The Agency and Chief Executive are responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 20-24 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Operating and Financial Review, the unaudited part of the Remuneration Report, and the Chief Executive's Review. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting

policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31st March 2006 and of the surplus, total recognised gains and losses and cashflows for the year then ended;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

31st May 2006

**OPERATING COST STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006**

		2005/06	2004/05
	Notes	£'000	£'000
Administration Costs:			
Staff Costs	3	39,437	37,237
Other Administration Costs	4	64,423	61,844
		<u>103,860</u>	<u>99,081</u>
Operating Income	6	(107,350)	(94,582)
Net Operating Surplus/ (Deficit)		<u>3,490</u>	<u>(4,499)</u>

All activities arise from continuing operations.

The notes on pages 30 to 41 form part of these accounts.

BALANCE SHEET
AS AT 31 MARCH 2006

		2006	2005
	Notes	£'000	£'000
Fixed Assets			
Tangible fixed assets	7	255,950	234,389
Current Assets			
Stocks	8	2,273	2,209
Debtors and prepayments	9	8,935	5,640
Cash		462	252
		11,670	8,101
Creditors due within one year	10	(23,406)	(15,707)
Net Current Liabilities		(11,736)	(7,606)
Total Assets less Current Liabilities		244,214	226,783
Provisions for Liabilities and Charges	11	(751)	(664)
		243,463	226,119
Taxpayers' Equity			
General fund	12	169,151	159,537
Revaluation reserve	13	74,312	66,582
		243,463	226,119
The notes on pages 30 to 41 form part of these accounts			

Professor Steven Edwards

Chief Executive and Agency Accounting Officer

25th May 2006

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006**

		2005/06	2004/05
	Notes	£'000	£'000
Net cash inflow from operating activities	14(a)	32,805	26,500
Other financial receipts			
Proceeds of sale of tangible fixed assets		-	7
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(22,543)	(19,433)
Net cash inflow before financing		10,262	7,074
Financing			
Cash paid to Defra	12	(10,052)	(7,000)
Increase in cash	14(b)	210	74

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2006**

	2005/06	2004/05
	£'000	£'000
Surplus/ (Deficit) for the year	3,490	(4,499)
Surplus on revaluation of tangible fixed assets	11,208	15,684
Total recognised gains and losses relating to the year	14,698	11,185

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The accounts have been prepared in accordance with the 2005/06 Financial Reporting Manual (FreM) issued by HM Treasury. The particular accounting policies adopted by the Agency are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

(a) Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

(b) Tangible fixed assets

Title to the freehold land and buildings shown in the accounts is held as follows:

- (i) All freehold land and buildings comprising the farms attaching to the main laboratory site at Weybridge are held in the name of the Secretary of State for Environment, Food and Rural Affairs:
- (ii) All freehold land and buildings at the main laboratory site at Weybridge and at any of the Regional Laboratories are held in the name of the Deputy Prime Minister.

Freehold land and buildings are restated at current cost using professional valuations every five years and appropriate indices in intervening years. Other tangible fixed assets have been stated at current cost using appropriate indices. The minimum level for capitalisation of a tangible fixed asset is £2,000.

(c) Depreciation

Freehold land and assets under construction are not depreciated. Leasehold buildings are depreciated over the shorter of their useful or leasehold life.

Depreciation is provided at rates calculated to write off the cost or valuation (less any estimated residual value) of fixed assets by equal instalments over their estimated useful lives. Lives are normally in the following ranges:

Buildings and Roads	5 to 60 years
Plant and machinery	5 to 10 years
Laboratory equipment	5 to 10 years
Computers	3 to 10 years
Farm vehicles, cars	5 to 15 years

(d) Work in progress and stocks

Work in progress represents costs incurred on specific projects including direct materials and labour plus attributable overheads less provision for known or expected losses as soon as

foreseen. Stocks are stated at the lower of cost, or net current replacement cost where materially different, and net realisable value.

(e) **Capital charge**

A charge, reflecting the cost of capital utilised by the Agency, is included in the operating cost statement. The charge is calculated at the Government's standard rate of 3.5% in real terms on all assets less liabilities, except for cash at bank and in hand.

(f) **Research and development**

Research and development expenditure is written off as incurred.

(g) **Value added tax**

Irrecoverable VAT, excluding that on capital purchases, is charged to the operating cost statement in the year in which it is incurred.

(h) **Notional charges**

The costs of the following services are included in the operating cost statement on a notional basis: Defra building maintenance charge, Defra central overheads, early departure costs, audit fees and interest on net assets excluding cash at bank and in hand.

(i) **Pensions**

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme, which are described in the Remuneration Report and at note 3(c). The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents' benefits. VLA recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services, by payment to the Principal Civil Service Pension Scheme (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, VLA recognises the contributions payable for the year.

(j) **Early departure costs**

The Civil Service White Paper, 'Continuity and Change' (Cm 2627), published in July 1994, announced new arrangements for funding early departure costs of civil servants departing between 1 October 1994 and 31 March 1997. Under these arrangements a minimum 20 per cent of the cost will normally be borne by Agencies and Departments and the remainder, up to 80 per cent, which would otherwise fall upon Departments' running costs, will be met centrally from the Civil Superannuation Vote.

In accordance with the Financial Reporting Manual, full provision is set up in the accounts for the early departure costs that are to be borne by the Agency. Provision is not set up for the remainder, which is to be met centrally, however such costs are included in the full costs of the Agency's operations for charging purposes. In 2005/2006 these centrally funded costs amounted to £27,408.

(k) Foreign currency translation

Assets and liabilities in foreign currencies are translated into sterling using the rate of exchange at the balance sheet date, or where appropriate, the rate of exchange fixed under the terms of the relevant transaction. Transactions in foreign currencies are translated into sterling using the monthly average rate at the date of the transaction. Differences on translation are written off to the operating cost statement.

(l) Leased Assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the fair value of the leased assets. The corresponding leasing commitments are shown as obligations to the lessor. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful life of equivalent owned assets. Assets purchased under hire purchase agreements are depreciated over the useful economic life of the asset. Rentals from operating leases are charged to the operating cost statement as incurred.

2. KEY PERFORMANCE TARGET

Within the prescribed 2% tolerance level the Agency is required to recover its full economic costs through charges for services it provides to Defra and other public and private sector customers. For the purpose of assessing performance against this target, full economic costs exclude the costs of early retirement and other items outside the VLA's control, but include an assessment of notional insurance premiums.

The target has been achieved in 2005/2006 as shown by the table below:

	2005/06 £'000	2004/05 £'000
Income	107,350	94,582
Expenditure	103,860	99,081
Surplus/ (Deficit) for the year before agreed adjustments	3,490	(4,499)
add/ (less): early retirement costs (note 4)	237	(222)
add: exceptional costs arising from compensation claims	56	44
Less: indexation increase recognised in Operating Cost Statement (2004/2005 – add: exceptional costs arising from professional revaluation)	(2,508)	4,534
less: notional insurance premium	(226)	(105)
Surplus/ (Deficit) for the year after adjustments	1,049	(248)

The notional insurance premium has not been included in the operating cost statement in line with FRS12, but is included above for cost recovery purposes as permitted by the Treasury Fees and Charges Guide.

3. STAFF COSTS

	2005/06	2004/05
(a) Staff costs:	£'000	£'000
Wages and salaries	30,234	29,784
Social security costs	2,319	2,207
Pension costs	5,444	3,958
	37,997	35,949
Agency and Consultancy Costs	1,440	1,288
	39,437	37,237

(b) The average number of employees during the year was made up as follows:

	2005/06	2004/05
Management	5	5
Scientists	628	631
Veterinarians	99	96
Scientific Support	190	202
Admin & Finance	307	312
	1,229	1,246

The average number of Agency and Consultancy staff employed throughout the year was 20 (2004/2005 – 16).

(c) The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi employer defined benefit scheme but VLA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £5,357,000 were payable to the PCSPS (2004-05 £3,898,000) at one of four rates in the range 16.2% to 24.6% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions for 2005-06 of £81,000 (2004-05 £56,000) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, for 2005-06 employers contributions of £6,000 (2004-05 £4,000), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

One person retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £10,707.

4. OTHER ADMINISTRATION COSTS

	2005/06	2004/05
	£'000	£'000
Cash based costs:		
Consumable supplies	13,782	11,334
Accommodation and utilities	11,986	11,020
Site services	11,266	10,878
Personnel costs	1,396	1,213
Travel and subsistence	868	771
Non-cash costs:		
Depreciation (note 7)	10,764	9,634
Downward asset revaluations	71	38
Loss on disposal of fixed assets	31	-
Impairment of fixed assets	3,890	5,043
Revaluation of land and buildings	(2,508)	-
Early retirement costs (note 11)	237	(222)
Notional costs:		
Interest on Land and Buildings	8,311	7,586
Interest on Net Assets	(106)	27
Building maintenance	3,725	3,725
Defra overheads	657	744
Audit fees	53	53
	64,423	61,844
	64,423	61,844

No remuneration was paid to the auditors in respect of non-audit work.

5. SEGMENTAL ANALYSIS

An analysis of income from services provided to customers is as follows:

	Income 2005/06 £'000	Surplus 2005/06 £'000	Income 2004/05 £'000	(Deficit)/ Surplus 2004/05 £'000
Defra and other Government	101,531	390	89,899	(580)
Commercial activities	3,721	355	3,109	93
Overseas activities	2,098	304	1,574	239
Total	107,350	1,049	94,582	(248)

Commercial income from Private Veterinary Surgeons of £1,514,000 (2004/2005 £1,455,000) has been included in Defra and other Government figures on the grounds that it partly funds the casework surveillance programme.

The above segmental information relates to fees and charges requirements and is not disclosed for the purposes of SSAP 25.

6. OPERATING INCOME

Turnover represents the invoiced amount of goods sold and services provided (net of VAT) from the business in the year, which is analysed as follows:

	2005/06 £'000	2004/05 £'000
Defra		
Animal Health and Welfare Directorate Group		
- Diagnostic testing and other services	45,414	36,300
- Provision of surveillance network including related capital charges	31,582	29,018
- Veterinary Exotic Diseases, Research and Official Controls Division	19,558	19,078
Agencies	334	279
Other	293	288
	<u>97,181</u>	<u>84,963</u>
Non-Defra income		
Food Standards Agency	3,188	4,248
Other Government	1,162	688
Commercial and overseas	5,819	4,683
	<u>107,350</u>	<u>94,582</u>

7. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Vehicles, plant and machinery £'000	Computer equipment £'000	Laboratory equipment £'000	Assets under construction £'000	TOTAL £'000
Cost or valuation							
At 1 April 2005	171,004	7,160	1,937	2,571	22,519	50,185	255,376
Additions	-	-	213	418	1,551	20,419	22,601
Transfers	55,640	940	-	-	-	(56,580)	-
Disposals	(1,041)	-	(81)	-	(245)	-	(1,367)
Indexation	13,534	479	59	(401)	198	-	13,869
At 31 March 2006	<u>239,137</u>	<u>8,579</u>	<u>2,128</u>	<u>2,588</u>	<u>24,023</u>	<u>14,024</u>	<u>290,479</u>
Depreciation							
At 1 April 2005	1,308	290	1,084	2,050	16,255	-	20,987
Provided in year	8,340	401	202	457	1,364	-	10,764
Disposals	(1,041)	-	(57)	-	(238)	-	(1,336)
Indexation	341	33	29	(330)	151	-	224
Impairment	3,890	-	-	-	-	-	3,890
At 31 March 2006	<u>12,838</u>	<u>724</u>	<u>1,258</u>	<u>2,177</u>	<u>17,532</u>	<u>-</u>	<u>34,529</u>
Net book value							
At 31 March 2005	<u>169,696</u>	<u>6,870</u>	<u>853</u>	<u>521</u>	<u>6,264</u>	<u>50,185</u>	<u>234,389</u>
At 31 March 2006	<u>226,299</u>	<u>7,855</u>	<u>870</u>	<u>411</u>	<u>6,491</u>	<u>14,024</u>	<u>255,950</u>

The Valuation Office Agency undertook the last formal professional valuation of land and buildings during the year ended 31 March 2005 with an effective date of 1 April 2005.

At 31st March 2005 an impairment provision of £1,486,000 in respect of Assets Under Construction was included in depreciation. In the opening figures above this amount has been reclassified within the cost of Assets Under Construction as at 1st April 2005.

The current year impairment arises from a provision required in respect of future demolition of buildings.

8. STOCKS

	2006	2005
	£'000	£'000
Work-in-progress	926	732
Raw materials and consumables	690	760
Finished goods and goods for resale	657	717
	2,273	2,209
	2,273	2,209

9. DEBTORS AND PREPAYMENTS

Amounts falling due within one year:

	2006	2005
	£'000	£'000
Trade debtors	2,061	1,963
Defra and Defra Agency debtors	5,169	1,784
Other government debtors	585	1,065
Prepayments	405	354
VAT	715	474
	8,935	5,640
	8,935	5,640

There are no amounts owing from local authorities, NHS Trusts, public corporations or trading funds (2005 - £nil)

10. CREDITORS DUE WITHIN ONE YEAR

	2006	2005
	£'000	£'000
Defra - payments in advance	4,768	2,450
- creditors and accruals	9,942	5,605
Other government creditors	500	136
Trade creditors	1,722	2,065
Accruals and deferred income	5,707	4,688
PAYE and National Insurance	767	763
	23,406	15,707
	23,406	15,707

There are no amounts owing to local authorities, NHS Trusts, public corporations or trading funds (2005 - £nil)

11. PROVISIONS FOR LIABILITIES AND CHARGES

EARLY RETIREMENT COSTS:

	2006	2005
	£'000	£'000
Provision for future costs	237	-
Adjustment to previous provision	-	(222)
Charge/(Credit) to Operating Cost Statement	237	(222)

The movements in the early retirement provision are shown below:

Balance at 1 April	664	1,022
Utilised in year	(150)	(136)
Increase in provision charged to Operating Cost Statement	237	-
Adjustment to previous provision	-	(222)
Balance at 31 March	751	664

12. GENERAL FUND

The VLA is funded by the Department for Environment, Food and Rural Affairs and the funding position is shown in the 'Taxpayers' Equity' section of the Balance Sheet.

Details of movements in funding are shown in the table below:

	2006	2005
	£'000	£'000
Balance at 1 April	159,537	153,437
Assets transferred from Defra in year	26	428
Building transferred to Defra	-	(55)
Surplus/(Deficit) for the year	3,490	(4,499)
Early retirement payments by Defra and Civil Superannuation Vote (notional)	-	136
Cash paid to Defra	(10,052)	(7,000)
Notional costs	4,435	4,522
Interest payable (notional)	8,205	7,613
Transfer from revaluation reserve	3,510	4,955
Balance at 31 March	169,151	159,537

The building transferred to Defra represents the removal of an asset which VLA was incorrectly advised to include in a previous year and was effectively treated as a disposal in 2005.

13. REVALUATION RESERVE

	2006	2005
	£'000	£'000
Balance at 1 April	66,582	55,853
Adjustment on indexation	14,270	9,479
Backlog depreciation on indexation	(554)	(1,586)
Indexation increase recognised in Operating Cost Statement	(2,508)	-
Professional revaluation in year	-	7,791
Asset movements relating to prior years	32	-
Transfer to General Fund	(3,510)	(4,955)
Balance at 31 March	74,312	66,582

14. CASHFLOW

The following tables expand on the figures shown in the Cash Flow Statement.

(a) Reconciliation of operating surplus/(deficit) to net cash inflow from operating activities:	2005/06	2004/05
	£'000	£'000
Operating surplus/ (deficit)	3,490	(4,499)
Notional interest	8,205	7,613
Depreciation charge	10,764	9,634
Fixed asset impairment	3,890	5,043
Loss on disposal of fixed assets	31	-
Revaluation of land and buildings	(2,508)	-
Downward asset revaluations	71	38
(Increase) in stocks	(64)	(15)
(Increase)/Decrease in debtors	(3,295)	468
Increase in creditors and provisions	7,786	3,560
Notional costs	4,435	4,522
Early retirement payments by Defra and Civil Superannuation Vote (notional)	-	136
Net cash inflow from operating activities	32,805	26,500

(b) Analysis of change in cash balances during the year:	2005/06	2004/05
	£'000	£'000
Balance at 1 April	252	178
Increase in cash	210	74
Balance at 31 March	462	252

The PGO bank account balance was £462,000 at 31 March (2005 £251,000).

15. CAPITAL COMMITMENTS

	2006	2005
	£'000	£'000
Commitments at 31 March for which no provision has been made:		
Authorised but not contracted	23,364	4,050
Authorised and contracted	6,932	12,956
	30,296	17,006

16. RELATED PARTY TRANSACTIONS

(a) Veterinary Laboratories Agency (VLA) is an Executive Agency of the Department for Environment, Food and Rural Affairs (Defra).

Defra is regarded as a related party. During the year VLA has had a significant number of material transactions with Defra and with other entities for which Defra is regarded as the parent Department.

These are: Animal Health and Welfare Directorate General
 Veterinary Exotic Diseases, Research and Official Controls Division
 Veterinary Medicines Directorate
 State Veterinary Service
 Central Science Laboratory

(b) During the year none of the Board Members, members of the key management staff or other related parties has undertaken any material transactions with VLA.

17. OPERATING LEASES

Operating lease rentals charged to the operating cost statement in the year amounted to £267,462 (2004/2005 £320,507).

Operating lease rentals due during the next financial year are as follows:

	2005/06	2004/05
	£'000	£'000
Expiring within one year	5	13
Expiring between one and five years	59	44
Expiring in over five years	174	171
	238	228

Rental payments in respect of plant and machinery amount to £ 64k (2004/05 - £57k). Property leases all have duration of greater than five years and amount to £ 174k (2004/05 - £171k).

18. CONTINGENT LIABILITIES

Nature of Claim	Value (£)	Likelihood	Timing
Tests	100,000	Medium	2006/07

The claims relate to tests carried out by VLA where the results are disputed by the customer.

19. FINANCIAL INSTRUMENTS

The Agency is required to disclose the role financial instruments had during the period in creating or changing the risks faced in undertaking its activities. The non-trading nature of the Agency's activities and the way Government agencies are financed, means the Agency is not exposed to the degree of financial risk faced by business entities. VLA has no powers to borrow or invest surplus funds, and financial assets and liabilities generated by day to day operational activities are not held to change the risks facing the Agency in undertaking its activities.

Liquidity risk: no significant exposure given the Agency's net resource requirement is financed through resources voted annually by Parliament.

Interest rate risk: no exposure as the Agency's main financial assets and liabilities carry nil or fixed rates of interest.

Foreign currency risk: not significant as foreign currency income and expenditure is negligible.

**ACCOUNTS DIRECTION GIVEN BY THE TREASURY
IN ACCORDANCE WITH SECTION 7(2) OF THE GOVERNMENT RESOURCES
AND ACCOUNTS ACT 2000.**

1. This direction applies to the Veterinary Laboratories Agency, an Executive Agency of the Department for Environment, Food and Rural Affairs.
2. The Veterinary Laboratories Agency shall prepare accounts for the year ended 31 March 2006 in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by H M Treasury (“the FreM”) which is in force for 2005-06.
3. The accounts shall be prepared so as to:
 - a) give a true and fair view of the state of affairs at 31 March 2006 and the income and expenditure, total recognised gains and losses, and cash flows of the Veterinary Laboratories Agency for the financial year then ended; and
 - b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. Compliance with the requirements of the FreM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FreM is inconsistent with the requirement to give a true and fair view the requirements of the FreM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment, which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FreM. Any material departure from the FreM should be discussed in the first instance with the Treasury.

David Cruden FCA
Head of Central Accountancy Team, Her Majesty’s Treasury
13 January 2006

LOCATIONS

MAIN LABORATORY

Weybridge New Haw, Addlestone, Surrey, KT15 3NB

REGIONAL LABORATORIES

Aberystwyth Y Buarth, Aberystwyth, Ceredigion, SY23 1ND

Bury St. Edmunds Rougham Hill, Bury St. Edmunds, Suffolk, IP33 2RX

Carmarthen Job's Well Road, Johnstown, Carmarthen, SA31 3EZ

Langford Langford House, Langford, Bristol, BS40 5DX

Lasswade International Research Centre, Pentlands Science Park, Bush
Loan, Penicuik, Midlothian, EH26 0PZ

Luddington Luddington, Stratford-upon-Avon, Warwickshire, CV37 9SJ

Newcastle Whitley Road, Longbenton, Newcastle upon Tyne, NE12 9SE

Penrith Merrythought, Calthwaite, Penrith, Cumbria, CA11 9RR

Preston Barton Hall, Garstang Road, Barton, Preston, PR3 5HE

Shrewsbury Kendal Road, Harlescott, Shrewsbury, Shropshire, SY1 4HD

Starcross Staplake Mount, Starcross, Exeter, Devon, EX6 8PE

Sutton Bonington The Elms, College Road, Sutton Bonington, Loughborough,
Leicestershire, LE12 5RB

Thirsk West House, Station Road, Thirsk, N. Yorkshire, YO7 1PZ

Truro Polwhele, Truro, Cornwall, TR4 9AD

Winchester Itchen Abbas, Winchester, Hants, SO21 1BX

SURVEILLANCE CENTRES

Royal Veterinary
College Department of Veterinary Pathology, Hawkshead Campus,
Hawkshead Lane, North Mymms, Hatfield, Hertfordshire AL9
7TA

Liverpool University Department of Veterinary Pathology, Leahurst, Neston, South
Wirral, CH64 7TE

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